Memo

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To	The Files
From	Dave Duncan Debra A. Cash Patricia S. Grutzmacher Jennifer Stevenson
Date	May 9, 2001, as amended, October 12, 2001
Subject	Raptor Transaction Update

Transaction Structure

During the first quarter, Enron executed various transactions with Timberwolf and Bobcat, two entities that are primarily capitalized by related parties, (the "Entities"). (see Raptor memos in the applicable quarter files for detail explanation of structures). As described in the Raptor memo, a credit capacity test is calculated each quarter to ensure that assets recorded by Enron, due from the Entities are not impaired, and are realizable.

On March 26, 2001, 7,919393 and 4,080,607 shares of Enron common stock were sold to Timberwolf and Bobcat under a forward sales agreement in return for notes receivable of approximately \$374.9 million and \$193.2 million, respectively. These shares will not be delivered to the Entities until March 2005. Until that time, the right to purchase these shares cannot be assigned, pledged, hedged or transferred in any form to any party without the consent of Enron. Because of those restrictions, the aggregate notes receivable value of approximately \$568.1 million represents the value on Enron's books at a discount of approximately 23%. The gross value of the stock under the forward sales agreement is approximately \$737.8 million (based on a \$61.48 price as of the effective date of 3/26/01) which represents the stock value included in the credit capacity test. In addition, equity collars were executed with Enron to hedge the value of the 12 million shares of Enron stock within the two Entities at a floor of \$61.48 and a cap of \$91.02.

Additionally, Enron sold a contingent issuance that gives the Entities the right to receive up to 18 million shares of Enron common stock if certain conditions are not met under the existing forwards that were executed during 2000 with Talon, Timberwolf, and Bobcat, (the "SPEs).

The following waterfall describes the payout to each SPE under the previously executed Peregrine forward based on the Enron stock price:

SPE	Contingent share issuance	Contingency share price range
Raptor I	3,876,755	\$48.55 - \$52.63
Raptor II	7,809,790	\$52.64 - \$63.36
Raptor III	6,326,045	\$63.37 - \$75.89

If Enron stock does not exceed a certain price level as reflected in the above table, the newly executed contingent issuance will allow the SPEs to receive the shares that are not delivered under the Peregrine forwards in March 2003. If shares are due as a result of this contingent issuance they will also be delivered in March 2003. Similar to the above described 12 million shares, the rights under these contracts as well as the shares delivered are restricted from assignment, pledge, sale, or any form of transfer to a 3rd party without the consent of Enron.

In exchange for the issuance, Enron received an aggregate notes receivable amount of approximately \$259.5 million. This amount reflects the fair value of the issuance of restricted sensus based on delivery in March 2003. The fair value of the issuance was determined based on a model created by Enron's Research Group.

In accordance with SFAS No. 114, Accounting by Creditors for Impairment of a Loan, (SFAS 114), "a creditor shall measure impairment based on 1) the present value of expected future cash flows discounted at the loan's effective interest rate, 2) the loan's observable market price or 3) the fair value of the collateral if the loan is collateral dependent." We believe that because the Raptor vehicles are highly leveraged and only enter into transactions with Enron that our impairment analysis should be assessed based on the "fair value of the collateral" or the fair value of the net assets held by Raptor.

SFAS No. 114 also states that "a creditor shall measure impairment based on the fair value of the collateral when the creditor determines that foreclosure is probable." Although the company does not believe foreclosure of the Raptor entities is probable at this time, the fair value of the collateral was appropriate for the analysis.

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In assessing the credit worthiness of the Raptor entities we have used the screen price of the Enron stock at the date of valuation. We believe it is appropriate to use the current quoted price of Enron stock and not the fair value of the restricted stock at the date of valuation since the restrictions contractually expire in 2005 when the notes and derivatives are settled. That is Raptor will realize the full screen price at the time that the instruments are due and payable.

Enron and its entities (Harrier, Grizzly, Pronghorn and Roadrunner) entered into an assignment agreement with the Raptor entities (Talon, Timberwolf, Porcupine, and Bobcat) that allows each Enron entity to assign their individual rights to receive distributions from their cost method investments in the respective Raptor entities to another Raptor entity, to the extent that such entities have obligations due to an Enron entity that cannot be fully paid by the Raptor entity. In conjunction with this assignment, the termination dates of the Raptor vehicles were aligned to April 18, 2005. Enron considered this assignment in their credit capacity assessment of each Raptor entity. As a result, Enron assessed credit capacity on an aggregate basis allowing for excess asset values from one Raptor entity to absorb the excess liability values of another Raptor entity. Therefore, the impact on the credit capacity test is that credit capacity is assessed at an aggregate Raptor level. Although the client did not achieve true cross-collaterization with the assignment, we believe their assessment of credit capacity on an aggregate basis considering the cross-assignment was reasonable considering the latitude allowed under SFAS 114.

Procedures

The following procedures were performed to ensure proper accounting:

- Reviewed all transaction documents noting execution and agreement with discussed transaction terms.
- Performed an extensive review of the credit capacity models that are maintained by the client to understand the impact of the above transactions on the Entities' credit capacity. After review, the overall resulting loss was approximately $36 million.
- Discussed the valuation methodology of the contingent issuance transactions with Research Group personnel.
- Reviewed Research Group documentation describing the assumptions used in modeling the contingent issuance (see attached Exhibit I).
- Assessed the reasonableness of the Research Group's valuation methodology for the contingent issuance. (See documentation of procedures done by Andersen's quantitative team @ Exhibit II.)
- Reviewed third party documentation (Deutsche Bank) describing the reasonableness of the discount factor related to the Enron stock restrictions.
- Reviewed the equity collar contracts to ensure compliance with EITF No. 00-19, "Determination of Whether Share Settlement is within the control of the Issuer for Purposes of Applying EITF Issue No. 96-13,"for verification of equity transaction accounting.

Conclusion

We discussed our conclusions with Mike Odom, Practice Director, and Mike Lowther, Concurring partner who concurred. We will continue to review and assess the credit capacity of the Entities on a quarterly basis.

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